20 March 2025

CPI Inflation Brief: **February 2025**

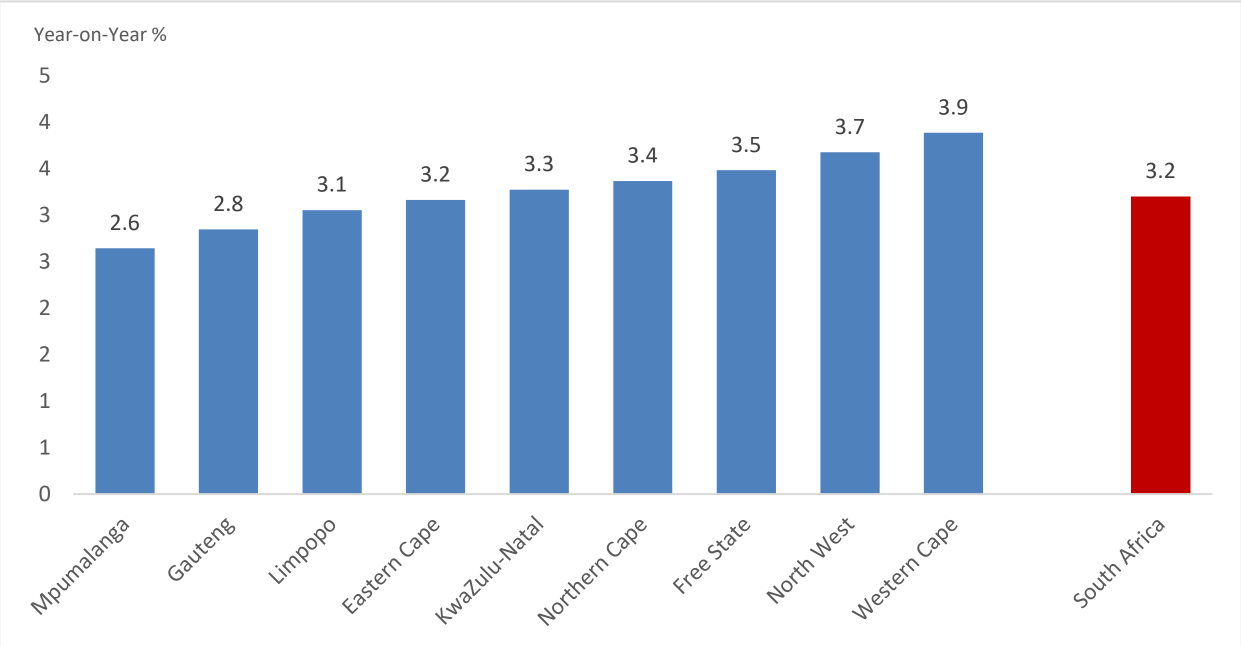
SA's annual headline consumer inflation rate remained unchanged at 3.2% in February 2025

Current (Actual)	**3.2%**	**February 2025 – Statistics SA**	
Previous month	3.2%	January 2024 – Statistics SA	
Medium-term Inflation Forecasts			
Institution	**2025**	**2026**	**2027**
SARB (January MPC)	3.9%	4.6%	4.5%
National Treasury (March Budget)	4.3%	4.6%	4.4%
Minerals Council SA (March)	3.8%	4.6%	n/a
Repo Rate 7.50%		**Prime Lending Rate** 11.00%	
(Next decision due: 20 March 2025)			

Headline Inflation Breakdown:

South Africa's annual **headline CPI** inflation rate remained steady at 3.2% year-on-year (y-o-y) in February 2025, unchanged from the 3.2% y-o-y recorded in January, and below the Bloomberg market consensus of 3.4%. **Core inflation**, which excludes volatile food and energy prices, eased slightly to 3.4% y-o-y in February from 3.5% in January. Among price categories, **goods inflation** edged up for the second consecutive month, rising to 2.5% y-o-y from 2.4% in January. In contrast, **services inflation** continued to moderate, declining to 3.8% y-o-y from 4.0% in the previous month - its second straight monthly decrease.

Figure 1: February Headline CPI per Province



Source: Statistics SA & Minerals Council SA.

Figure 1 illustrates the variation in headline CPI inflation across provinces, highlighting the disparity in inflationary pressures experienced in different regions. Mining-intensive provinces, such as Mpumalanga, Gauteng, and Limpopo, saw the lowest inflation rates, offering some relief for mining employees. In contrast, the Northern Cape and North West provinces, which are also dependent on mining, saw inflation rates above the national average, putting additional pressure on mining and quarrying households in these regions. Below, we explore the details of the national headline inflation rate.

1. **Housing and utilities** were the biggest contributor to the annual increase in headline inflation, increasing by **4.4%** y-o-y and contributing 1.0 percentage points to the headline figure.
    - There were no notable changes in this subcomponent apart from a 0.3% month-on-month (m-o-m) reduction in **maintenance and repair** costs.

2. **Food and non-alcoholic beverages (NAB)** increased by **2.8%** y-o-y and contributed 0.5 of a percentage point and were the second largest contributor to annual headline inflation.
    - Stats SA notes that food prices reached a four-month peak in February. Among the most notable adjustments, **cereal products**' climbed by 1.0% month-on-month, with an annual increase of 3.9% y-o-y.
    - There was a notable increase in the monthly price of **fruit and nuts** which increased by 1.8% m-o-m with the annual rate increasing by 6.8%.
    - February saw a decrease in the prices of **vegetables** which were 0.6% lower m-o-m.
    - **Maize meal and samp** prices are under particular pressure, with the rate of increase for maize meal reaching a 17-month high at 10.6% y-o-y and samp hitting a 19-month high at 18.7% y-o-y in February. Most of these cost pressures stem from supply chain pressures. However, the Agricultural Business Chamber (Agbiz) notes that favorable estimates and good rainfall suggest a likely recovery in South Africa's agricultural harvest, following a severe mid-summer drought of 2023/24. Maize production is projected to rise by 8.0% y-o-y in 2025, and by the end of February, improving prospects for the maize season have already exerted downward pressure on futures prices for maize.
        - The **white maize** spot price **fell 18%** m-o-m by the end of February.
        - The **yellow maize** spot price **declined 16%** m-o-m over the same period.

Agbiz suggests that if production forecasts improve further, maize prices are likely to continue moderating. Over time, this should be passed on to the retail level and result in some easing in consumer food prices.

Other notable changes include:

- Stats SA's annual (February) survey of medical aid premiums and health services highlighted rising costs in the sector, pushing up the insurance category within the CPI. Indeed, at 0.6 percentage points, this was the biggest factor behind a notable 0.9% m-o-m rise in overall headline CPI. Medical aid premiums increased by 10.5% y-o-y in 2025, slightly above the 10.3% rise in 2024. Overall medical service costs grew by 6.1% y-o-y, up from 5.0% last year. Within this, **general practitioner** fees rose by 6.6% y-o-y, **dentist** fees increased by 5.2% y-o-y, and **optometrist** prices saw the steepest jump, surging by 10.2% y-o-y.

- **Fuel** prices increased by 3.9% m-o-m in February, adding upward pressure to transport inflation. For March, fuel prices saw only a slight decrease of a few cents, which is unlikely to ease the pressure significantly but should help stabilise the fuel component in the CPI, effectively freezing its impact for the month.
- Looking ahead to April, preliminary data from the Central Energy Fund suggests a notable reduction in fuel prices, with 95-octane petrol projected to drop by around 90 cents per litre, 93-octane by approximately 75 cents, and diesel by 90 to 100 cents per litre. This anticipated decline is mainly due to easing global petroleum product prices.

Closely linked to inflation and the fiscal impact on consumers, the **national budget** was tabled on March 12th, 2025, after being postponed on February 19th. Key measures affecting **mining employees and inflation** include a **multi-year VAT increase** and the absence of personal income tax bracket adjustments, which effectively increases the tax burden on employed individuals. The main cost-of-living implications flowing from the budget include:

- A 0.5 percentage point VAT increase from 1 May is **expected to raise average headline CPI inflation** in 2025 **by roughly 0.2 percentage** points. A similar VAT hike in 2026 will add to inflationary pressures.
- To offset some of the impact, Treasury will **expand VAT zero-rated food** items, including edible offal of sheep, poultry, goats, swine, and bovine animals; specific cuts such as heads, feet, bones, and tongues; dairy liquid blend; and tinned or canned vegetables.
- **Excise duties on alcohol and tobacco** will see above-inflation increases.
- **Fuel and Road Accident Fund (RAF) levies** will remain unchanged in 2025, providing some relief on fuel prices and therefore transportation costs.

Higher Personal Income Tax Payments and Inflationary Impact

The absence of personal income tax bracket adjustments (fiscal drag) means that as wages rise with inflation, workers move into higher tax brackets, leading to higher tax payments. This effectively reduces disposable income, which in turn dampens consumer spending - a key driver of demand-side inflation.

For mining and quarrying employees, who earned between R350,000 and R400,000 per annum on average in 2023/24 based on data from Stats SA, this translates into a tangible reduction in take-home pay:

- A worker earning R350,000 per annum in 2024 who received an inflation-linked 4.4% salary increase in early 2025 will pay R334 more per month in tax from 1 March 2025.
- Those earning R400,000 in 2024 receiving the same inflation-linked increase will pay R455 more per month in tax from 1 March 2025.

With less discretionary income available, all else equal, consumer demand for goods and services may soften, particularly for non-essential items, potentially easing inflationary pressures in the months ahead. However, this impact will be partially offset by inflationary pressures stemming from higher indirect taxes (such as VAT) and administered price increases (such as electricity).

<u>Outlook:</u>

If the VAT hikes go ahead, it will put upward pressure on inflation. However, lower-than-expected-by-many electricity tariff increases for 2025, a possible petrol price decline in April and positive food price developments at the start of the supply chain should keep headline CPI inflation broadly in a range of 3% to 3.5% in the next several months.

Against this backdrop, the South African Reserve Bank (SARB) will announce its decision on the repo interest rate today (20 March), and the outlook beyond the near term has become more uncertain. While we have been more cautious about the interest rate outlook, it has been widely expected that the bank will implement two additional 25 basis point cuts this year. However, recent developments, including the proposed VAT hikes in 2025 and 2026, have raised doubts about this. Key risks, which the Reserve Bank highlighted in January, have since materialised.

These risks include the ongoing tariff war sparked by the Trump administration, which has the potential to affect global growth and inflation. The response of countries hit by tariffs will play a critical role in determining the broader impact on the global economy, and the SARB is sure to be cognisant of this.

Given these developments, it is likely that the SARB will hold off on cutting the repo rate today, taking a wait-and-see approach to assess how the risks evolve and their impact on the South African economy. However, if the Bank does decide to lower rates, the decision is likely to come from a divided Monetary Policy Committee, reflecting the heightened uncertainty South Africa is currently facing. In this context, and considering the aim to sustainably ensure headline CPI remains around (or below) 4.5%, holding off on rate cuts seems like the more prudent approach.

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Yours sincerely,

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